DOES CORPORATE GOVERNANCE INFLUENCE FINANCIAL PERFORMANCE?: AN ANALYSIS USING CORPORATE SOCIAL RESPONSIBILITY AS A MEDIATING VARIABLE

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Does Corporate Governance Influence Financial Performance? : An Analysis Using Corporate Social Responsibility as a Mediating Variable

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Abstract

This paper aims to look the impact corporate governance has over financial performance through the level of corporate social responsibility disclosure, using a sample of 11 high profile companies from tobacco and cigarette and pharmaceutical industries in Indonesia from 2014 – 2017. Literatures about these topics have a very diverse result with various settings and backgrounds conducted over the years. This paper is expected to fill in the knowledge gap for research takes place in Indonesia. Despite the arguments about board size and financial performance, this research found that board size has positive relationship toward financial performance while frequency of meeting remains insignificant toward financial performance. In addition, corporate social responsibility disclosure fails to act as a mediating variable in this research. Financial performance is measure by ROA and ROE. We conclude that even with the mandatory regulation from the government, it has become apparent that other stakeholders within the local market do not pay that much attention to the level of CSRD made by companies.

Keywords: Corporate Governance, Corporate Social Responsibility Disclosure, Board Size, Frequency of Meeting, Financial Perfomance

Abstrak

Penelitian ini bertujuan untuk melihat dampak tata kelola perusahaan terhadap kinerja keuangan melalui tingkat pengungkapan tanggung jawab sosial perusahaan, menggunakan sampel dari 11 perusahaan terkemuka dari industri tembakau dan rokok serta industri farmasi di Indonesia dari tahun 2014 - 2017. Jurnal dan Pembahasan tentang topik ini memiliki hasil yang sangat beragam dengan berbagai tempat dan latar belakang yang berbeda selama bertahun-tahun. Tulisan ini diharapkan dapat mengisi kesenjangan pengetahuan untuk penelitian yang terjadi di Indonesia. Terlepas dari argumen tentang ukuran dewan dan kinerja keuangan, penelitian ini menemukan bahwa ukuran dewan memiliki hubungan positif terhadap kinerja keuangan sementara frekuensi rapat tidak signifikan terhadap kinerja keuangan. Selain itu, pengungkapan tanggung jawab sosial perusahaan gagal untuk bertindak sebagai variable mediasi dalam penelitian ini. Kinerja keuangan diukur dengan ROA dan ROE. Kami menyimpulkan bahwa bahkan dengan peraturan dari pemerintah yang mengharuskan perusahaan untuk mengungkap aktivitas tanggung jawab sosialnya, telah menjadi jelas bahwa para pemilik kepentingan lain dalam pasar lokal tidak terlalu memperhatikan dan/atau mementingkan hal tersebut.

Kata Kunci: Tanggung Jawab Sosial, Ukuran Jajaran Direktur, Frekuensi Meeting, Perfoma Finansial

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CHAPTER IV

RESULTS AND DISCUSSIONS

4.1. Descriptive Statistics Results

This section provides descriptive analysis to identify the variables further. In particular, this analysis is to explain how strong CSRD mediates the relationship between CG and FP among Indonesian listed firms; tobacco and pharmaceutical industry, precisely. The descriptive results are shown below.

Table 4.1 Descriptive Statistics

Variables	Mean	Std. Deviation	Min.	Max.
BS	5.303	1.571	3	8
FM	16.121	10.781	4	51
CSRD	3.636	1.194	1	5
ROA	0.097	0.121	-0.208	0.359
ROE	0.082	0.384	-1.757	0.754

See Appendix; BS: Board Size; FM: Frequency of Meeting; CSRD: Corporate Social Responsibility Disclosure; ROA: Return on Asset; ROE: Return on Equity

1. Board Size

Based on the table above, it can be seen that, in average, tobacco and pharmaceutical companies have 5 directors present on board. The boards consist of various people needed by company with certain set of skills to make vital decisions. During 2014, companies are preparing themselves to be part of the ASEAN Economic Community by the end of 2015. Improving businesses to attract more investors is very imminent at that time and some companies chose to increase the board size to acquire more skill sets in their board of directors. There are companies with minimum 3 members on board and there are companies with 8 members at most present on board.

2. Frequency of Meeting

The regulation to disclose CSR activities are made back in 2012 by the government financial division (OJK) but the implementations are not that popular among the industries. As time passes, CSRDs have become somewhat a trend with their significance shifted. They have become mandatory in a very quick succession, urging the companies to act immediately to the change. Which consequently, make the directors have more meetings to discuss about the demand from stakeholders while ensuring the company's going concern assumption. The minimum meetings conducted throughout the year are 4 and the maximum is 51.

3. Corporate Social Responsibility Disclosure

Over the period of 2014 – 2016, CSRDs have gradually increased due the stakeholders' awareness toward social and environmental issues. It had become a benchmark for businesses to disclose any social and environmental approach that they had done to legitimate their businesses, to gain trust and boost their image, and to comply with the regulations. The CSRD is measured with SRI Kehati Index which is further broken down to 7 categories. The index is not widely implemented by listed companies, so they only fulfil 1 category and 5 categories at most.

4. Return on Asset (ROA)

Based on the table, tobacco and pharmaceutical industries have the average positive performance with the average of 9.7% or 0.097. There were companies with poor performance having a negative ROA and there were companies with the best ROA performance at 35.9% or 0.359. Tobacco industries have shown a declining trend since 2014, there were several factors affecting this phenomenon. Those are the rising tax from the government and the rising awareness from the citizen toward public health. In addition to pharmaceutical industry, Yunus et. al (2016) mentioned that the sales performance of the whole industry in Indonesia has been declining for five years.

5. Return on Equity (ROE)

ROE performance in average is lower than ROA performance at 8.2% or 0.082. There were times when the market was rough, indicated by the negative performance by a handful companies and the best performance was 0.754 or 75.4%. Excise tax revenue realization in the domestic cigarette industry dropped in 2017 in spite of the implementation of an average 12.26 percent excise on retail cigarette prices at the start of that year (Indonesia Investment, 2018). Supply chain in pharmaceutical industry is highly regulated by the government, making it a bit rough for the business. Additionally, the pharmaceutical industry in Indonesia is included in the Negative List Investment (Yunus et. al, 2016) due to the ownership restriction regulated by the government.

4.2. Multiple Regression Analysis Results

Table 4.2 Multiple Regression Analysis Results

	Coefficient	t value	sig.	Research Model
	Return on Asset			
Board Size	0.044	3.913	0.000	1
Frequency of Meeting	0.000	0.790	0.938	
	Return on Equity			
Board Size	0.096	2.374	0.024	2
Frequencey of Meeting	0.005	0.857	0.398	
	Corporate Social Responsibility Disclosure			
Board Size	0.059	0.431	0.669	3
Frequencey of Meeting	0.440	2.424	0.021	
	Return on Asset			
Board Size	0.044	3.815	0.001	4
Corporate Social Responsibility Disclosure	0.008	0.508	0.615	
	Return on Equity			
Board Size	0.092	2.290	0.029	5
Corporate Social Responsibility Disclosure	0.058	1.088	0.285	

In regards to CSRD as a mediating variable, independent variable measured using 2 proxies; the first proxy to be tested is board toward CSRD beforehand. Testing whether board size is mediated by CSRD or not. Direct analysis of Board Size toward CSRD can be seen on the table 4.2. The hypothesis tested is:

H_2: Corporate Governance has significant influence on Financial Performance through CSRD.

The table shows that beta coefficient is at 0,059, t value at 0,431 and probability 0,669 (p>0,05). It indicates that BS is not significant toward CSRD.

Furthermore, CSRD is tested with the other proxy of CG, namely frequency of meeting. Direct analysis of meeting frequency toward CSRD can be seen on the table 4.2. The hypothesis tested is:

H_2: Corporate Governance has significant influence on Financial Performance through CSRD.

The table shows that coefficient is at 0,440, t value at 2,424 and probability at 0,021 ($p<0,05$). It indicates that FM is significant toward CSRD.

Direct analysis of Board Size toward ROA can be seen on the table 4.2. The hypothesis is:

H_1 : Corporate Governance has significant influence on Financial Performance.

The table shows that beta coefficient is at 0,044, t value at 3,913 and probability at 0,000 ($p<0,05$). It indicates that BS is significant toward ROA. Direct analysis of FM toward ROA can be seen on the table 4.2. The table shows that beta coefficient is at 0,000, t value at 0,079 and probability at 0,938 ($p>0,05$). It indicates that FM is not significant toward ROA.

Direct analysis of Board Size toward ROE can be seen on the table 4.2. The hypothesis is:

H_1: Corporate Governance has significant influence on Financial Performance.

The table shows that beta coefficient is at 0,096, t value at 2,374 and probability at 0,024 ($p<0,05$). It indicates that BS is significant toward ROE. The table also shows that beta coefficient of FM is 0,005, t value at 0.857 and probability at 0,398 ($p>0,05$). It indicates that FM is not significant toward ROE.

Multiple regressions analysis of Board Size toward ROA through CSRD can be seen on the table 4.2. The hypothesis is:

H_2 : Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient for BS is at 0,044, t value at 3,815 and probability at 0,001 ($p<0,05$). It indicates that BS, mediated by CSRD is significant toward ROA. Furthermore, the table shows that beta coefficient for CSRD is at 0,008, t value at 0,508 and probability at 0,625 ($p>0,05$). It indicates that CSRD has no significant influence on ROA. R square value shows that BS and CSRD contribute 33.6% to ROA; the other 66.4% is caused by other factors than BS and CSRD, provided on the appendix.

Multiple regressions analysis of FM toward ROA through CSRD can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient is at 0,000, t value at -0,203 and probability at 0,841 ($p>0,05$). It indicates that FM through CSRD is not significant toward ROA. In addition, the table shows that beta coefficient of CSRD is 0,014, t value at 0,687 and probability at 0,497 ($p>0,05$). It indicates that CSRD has no significant influence on ROA. R square value shows that FM and CSRD contribute 1.6% to ROA; the other 98.4% is caused by other factors than FM and CSRD, provided on the appendix. In addition to the multiple regressions analysis of Board Size toward ROE through CSRD, it can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient is at 0,092, t value at 2,290 and probability at 0,029 ($p<0,05$). It indicates that BS, mediated by CSRD is significant toward ROE. Next, the table shows that beta coefficient of CSRD is 0,058, t value at 1,088 and probability at 0,285 (p>0,05). It indicates that CSRD has no significant influence on ROE. R square value shows that BS and CSRD contribute 18.6% to ROE; the other 81.4% is caused by other factors than BS and CSRD.

Multiple regressions Analysis of FM toward ROE through CSRD can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows beta coefficient 0,003, t value of 0,421 and probability 0,677 (p>0,05). It indicates that FM through CSRD is not significant toward ROE. Moreover, the table shows that beta coefficient of CSRD is at 0,057, t value at 0,908 and probability at 0,371 (p>0,05). It indicates that CSRD is not significant toward ROE. R square value shows that BS and CSRD contribute 4.9% to ROE; the other 95.1% is caused by other factors than FM and CSRD.

4.3. Discussions

4.3.1. Corporate Governance Has a Direct Impact on Financial Performance

This paper hypothesized that CG has significant influence toward FP on business firms. Previous studies have resulted many arguments but most of them prove that CG positively affects FP in a direct relationship with various proxies. CG is commonly measured using board independence and managerial ownership while FP is measured using ROA and ROE with additional firm value which measured with Tobin's Q in some literatures. This paper uses Board Size (BS) and Frequency of Meeting (FM) to measure CG while. Taken from the statistical result, BS is proven significant toward both FP proxies, it is similar to a study in a banking industry which stated that BS positively relate to FP (Belkhir, 2009).

The size of board directors can influence the operational efficiency of a firm. It is expected that the more members present on board, the more effective the decision made due to more people with various skill set and background. In addition, more members are needed in order to manage a bigger company with also a lot more resources compared to smaller ones (Birnbaum, 1984; Dalton et al., 1999). Thus, more members enhance the efficiency of the firm in handling the business, which in return give higher ROE and ROA. CEO duality is often found in companies with small boards, with a fewer numbers there's a higher chance for a person to have more position which leads to CEO duality. Thus, larger board is preferable with greater monitoring activity from the board members themselves.

Meanwhile, FM is not proven significant toward any FP proxies in this research. In general, more meetings lead to more expenses or more urgency to discuss over a specific period of time (Hahn and Lasfer, 2016; Vafeas, 1999). Taken from the annual reports from the listed companies, all of them hold the board meeting for at least once a month and every 3 months the board of commissioner also join the meeting. Unless it is deemed necessary, most companies only have monthly meetings. From 3 years of observation, the most meetings held were 19 meetings on average in second year. Though the meetings may discuss about any urgency about the business, it seems that monthly meetings have covered most of the problems. It has become insignificant for meetings to contribute that much to the ROA since the numbers of meetings every year do not change significantly for some companies yet the ROA still fluctuates. In addition, boards which are meeting more often are underestimated by the market (Vafeas, 1999). Regarding equity, there is only a handful thing that meetings could discuss. The rest of the problems lay on the external factor such as global economy, exchange rate, and the current condition of the industrial sector. Therefore, how many meetings held by the companies is not significant looking at the statistics in this paper. It also points out that the meetings held by the directors are not effective, the meetings are held merely to comply with the regulation to have monthly meeting.

Moreover, more meetings are expected to have more positive effect toward the business through any improvement made in the meetings. More meetings also improve the coordination of board members which is important for companies with large number of member and if the meetings are held efficiently, it would gradually decrease the agency cost as well. But, more meetings more expenses in order to facilitate board members to come to the meeting and other costs incurred during the meeting (Hahn and Lasfer, 2016; Vafeas, 1999). The amount of board meeting needed throughout the year vary for each company in different sectors, since different sectors have their own complexity and challenge. Narrow it down to the industrial sector, competitiveness in the pharmaceutical industry may push some companies to have more meetings while in tobacco industry there are only giant companies with their enormous local market, making tobacco companies in Indonesia have less number of meetings compared to those in pharmaceutical industry.

4.3.2. Corporate Governance Has an Indirect Impact Financial Performance through Corporate Social Responsibility Disclosure (CSRD)

The second hypothesis says that CSRD works as a mediating variable. Based on the statistical result, it can be seen that CSRD is not significant as a mediating variable. In addition to each CG proxy, BS is not significant toward CSRD, meaning is that CSRD cannot be a mediating variable in a relationship between BS and FP proxies. In practice, BS clearly has influence on the efficiency of the board but does not have any significance over an approach to make since the numbers of people do not affect the approach they take. FM, on the other hand, is a different factor. CSRD is an approach taken by a company through many meetings, with how CSRD has become an imminent demand from the stakeholders (Achmad and Faisal, 2013; Bani-Khalid and Ahmed, 2017; Lim and Greenwood, 2017), FM can affect CSRD approach in a company and therefore, it has positive relationship with CSRD. It can be seen that the number of directors on board affect the firms as a whole operating body while the number of meeting affect some particular moves taken by the company in order to achieve its goals (Murwaningsari,2016; Tan et al., 2016).

Despite the fact that government mandated companies to disclose their CSR activities (Kriyantono, 2015) and the pressure from a few voluntary bodies, Indonesian people are not much concerned about environmental and social issues unlike citizen in other countries. Furthermore, Indonesian people tend to blame the government for those kinds of issue. Underestimating their role and thus, underestimating the influence of CSRD on business as well. Along with Indonesia being a member in ASEAN Economy Community by the end of 2015 (OECD, 2015), there was also a concern to improve businesses to meet the standard set by the global market with CSRD as a mandatory thing and a growing trend since 2000s. Because the setting is set in local market, CSRD is not that significant as a mediating variable though it may be significant in another setting for research paper.

CHAPTER II

LITERATURE REVIEW

2.1. Stakeholder Theory

According to Donaldson and Preston (1995), stakeholder theory has been advanced and justified by its descriptive accuracy, instrumental power and normative validity. Each of the justification has its definition and weakness in the business application. They argued that the stakeholder theory is considered as "managerial" or further known as, managerial branch. Moreover, it recommends the attitudes, structures, and practices that the business takes in order to manage stakeholders. Furthermore, the notion that stakeholder have a certain influence toward the successful economic performance, although widely believed (and not patently inaccurate), is insufficient to stand alone as a basis for the stakeholder theory. Indeed, the most thoughtful analyses of why stakeholder management might be casually related to corporate performance ultimately resort to normative arguments in support of their views. For these reasons, Donaldson and Preston (1995) believe that the ultimate justification for the stakeholder lean toward the normative base.

This theory stipulates that there is a gap between the interests of organization and the stakeholders', and what the stakeholders believe to be their interests (De Gooyert et al., 2017). Furthermore, companies have to make decisions toward those demands. But not all of the interests are addressed equally, it is adjusted to the level of engagement the business is willing to take or the business can take at the moment due to different ability and awareness of social responsibility (Pedersen, 2006).

Deegan (2000) states that stakeholder theory has both ethical and managerial branch, this theory is strongly related to legitimacy theory; both of them have so many similarities in particular in regards of explaining the importance of stakeholders to corporations. Additionally, they have similar background philosophy and provide broad ways to explain social disclosure. Stakeholder theory stipulates that stakeholders are people or organizations who are believed to have impact to the business as a whole. The degree of influence would be different for each industry due to type of business, size of firm, industry sensitivity, as well as media pressure. The stronger the influence of the stakeholder, the more resource and attention paid to them in managing the relationship. Information has a major role for the corporations in managing the stakeholders; they can be used to gain public approval and support while distracting the attention of those who oppose the business.

Managerial stakeholder theory specifies organization as part of the larger social system and specifically classifies various stakeholders and how to handle them in order for the business to survive. The expectations from stakeholders have a direct impact to the course of the business and the policy-making process. Corporations may not respond to all stakeholders in the same manner, but they address those who are considered powerful first (Deegan, 2006). A stakeholder's influence is also seen as the controlling function with certain degree to allocate resources required by the organization (Ullmann, 1985). The more important the stakeholders for the future business flow, the more of their expectations are being addressed. Successful firms are those who efficiently manage demands from many powerful stakeholders (Deegan, 2006; Ullmann, 1985). In addition, Ullmann (1985) claims that the greater the degree of significance of certain stakeholders to the organization, the higher chances those particular expectations of them would be incorporated in the business actions. An action such as information disclosure is made as favorable as possible to meet the expectations of impactful stakeholders.

In accordance with managerial stakeholder theory, the relationship between corporations and stakeholders is mutual. Therefore, business firms are managed to meet the expectations of stakeholders, which are evolving from time to time. The growing trend about CSR disclosure is also being supported by Gray et al.'s (1998, p. 303) saying:

The increasing concern with stakeholders, growing anxiety about business ethics and corporate social responsibilities, and the increasing importance of ethical investment have all raised the need for new accounting and accounting methods, through which organizations and their participants can address such matters. But probably the most important of all the influences has been the dawning realization that environmental issues –

especially when examined within the framework of sustainability – cannot be separated from the social issues and the accompanying questions of justice, distribution, poverty, and so forth. Social accounting, in its all guises, is designed to deal exactly with these issues.

Basically, the goal of business is to produce business profit as much as possible. According to Lawrence and Weber (2011), stakeholder theory suggests that the company does not only strive to improve its value for the owner but also pay attention to what other parties which have interest on the business. That being said, several stakeholders also prefer firms that make CSR disclosures and/or activities; the general idea is to get assurance from the company in doing business such as great work environment or helping the nature and company's contribution to the society. There was not any major concern about CSR before but as time goes by people started to pay more attention since the global warming news and other similar issues have had arisen. Thus, stakeholder theory is needed to help this paper breaks down the association between business firms and whole stakeholders. Stakeholders include consumers, internal managers and employees, suppliers, governments, and both potential as well as existing investors.

2.2. Agency Theory

This theory defines managerial actions departing from modern corporations, in which share ownership is held by many stakeholders, which are required to maximize shareholders' returns (Berle and Means, 1932; Pratt and Zeckhauser, 1985; Donaldson, 1991).Furthermore, Jensen and Meckling (1976) introduced some agency terms: the owners are known as principals, agents refer to managers, and loss, which is the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercised direct control of the corporation. This relationship demands the chosen agents to act in order to achieve principals' aim. The problem arises because principals and agents have different interests and time scope, agents tend to have short term goal or until they stopped working on the business, while principals seek for long term achievements and/or sustainability or going concern.

Further implementations in the business world reveal several monitoring actions taken by the principals to keep the agents checked or to limit the agent's activity; the cost incurred is called bonding cost. According to Jensen and Meckling (1976), agency cost refers to the total cost related to monitoring the agents, bonding cost, and the residual loss. Residual loss is further explained as a cost incurred from the divergent principal and agents interests in spite of the use of bonding and monitoring cost. In order to reduce agency problem, principals tend to measure the agent's performance and give certain incentives (Eisendhardt, 1989) to encourage the agents to maximize the shareholder's interests. Another scheme is to tie the executive compensation and level the benefits to shareholder returns and have part of executive compensation deferred to the long-term value in maximizing the corporation value and avert short term goal action which could potentially harm the corporate value.

Within the corporations, there are two major structural mechanisms to prevent any actions toward the slightest opportunity; they are board of directors (BoD) and board of commissioners (BoC). Together, they serve to monitor the managers on behalf of the shareholders. CEO duality is strongly restricted to reduce managerial opportunism and agency loss. Another mean is to have good corporate governance, which is further explained by this theory as the mechanisms that police the explicit and implicit contracts between principals and agents (Fama and Jensen, 1983; Hill C.W., 1992).Hill C.W. specifies corporate governance as the structure of law governing corporate behavior and its attendant legal apparatus, monitoring mechanisms (BoD), and enforcement mechanisms (like the market for corporate control and the managerial labor market).

Research upon corporate governance is often guided by the argument of the positive influence from agency theory (Misangyi, 2014). As time goes by, this theory is challenged all the time to explain numerous agency problems that grow not only in number but also variety and how to address them from all over the world (Bosse, 2016). This theory arises when a principal of business gives the responsibility of handling the business to an agent on their behalf. It is assumed that (1) all parties have their own interests, (2) all parties are bound to be rational, and (3) agents tend to be risk averse (Eisenhardt, 1989). However, mixed result of empirical findings has been refining the theory to search for deeper and broader explanation (Bosse, 2016). In this research, this theory is used to explain how the agents would react toward pressure and expectations from the principals and other related parties.

2.3. Corporate Governance

The subsections below introduce the theories and the description of past studies or research that are used as cornerstones supporting this paper. They will underline the importance of each theory and the link among corporate governance, corporate social responsibility, and financial performance. Comprehensive explanations are discussed further in the rest of this chapter.

There is no accepted definition of CG as it has a broad concept (Muktar et al 2016).Wilson (2006) defines CG as something that provides the company with a set of objectives: managing resources to achieve those effectively and monitoring the performance in a sustainable manner. The governance structure specifies the job desk for each member of the business organization such as managers, board of directors, employees, and puts in place limitations to safeguard the interests of shareholders. Generally, there are no specific terms on how corporate governance should be done since it differs for each organization. However, with the recent development of CSR, companies are making attempts to make disclosures in hope to be socially responsible, hence, satisfy stakeholders and improve earnings. Furthermore, stakeholder theory (Hill and Jones, 1992) breaks down the importance of stakeholders and how stakeholders influence the company's success and decision making.

There are a few requirements in order to have good corporate governance. According to Oso and Semiu (2012), those are transparency, accountability and responsibility, protection of stakeholder's interests and satisfaction, participation, business ethics and values, performance orientation, openness, mutual respect, and commitment to organizations. Sincere compliance or adherence to them would ensure the sustainability of the corporation itself and a veritable global market place. Thus, corporate governance refers to a precaution system, structures, and actions which determine how the corporation is managed to achieve its objectives.

Despite the general terms and principles of corporate governance, every country has its own department to regulate the policies and implement those to the market they have. In Indonesia, the Financial Services Authority, also known as Otoritas Jasa Keuangan (OJK), is the main department whose jobs are to regulate policies, monitor the implementation in the business world, update and make adjustments of the regulations to the global market, and maintain the degree of investor's confidence toward Indonesia. Since the crisis in 1997, Indonesia has developed various standards followed by proper corporate governance infrastructures. Among other means of reforming corporate governance, the government made a commitment to the International Monetary Funds in a form of signed letter in January 2000 (Kurniawan, 2000). The scheme involved organizing NCCG (National Committee for Corporate Governance). In the process of developing its regulation and rules of CG, Indonesia uses Economic Co-operation and Development (OECD) as its reference (OECD, 2015).

Next, to measure how well companies reorganize their CG, Indonesia has implemented Corporate Governance Perception Index (CGPI) as an annual program since 2001. It is a research and rating program for GCG implementation for Indonesian corporations. In addition, it was a result of a research conducted by Indonesian Institute for Corporate Governance (IICG). CGPI was applied to stimulate companies to have good CG in practice by having benchmark and annual evaluations. Thus, it enhances the quality of the overall market, attracts more investors, both local and foreign, and improves the competitiveness of Indonesia in the eye of other countries. It could be seen that CG has a crucial impact to the business, gaining confidence of the public and international market and strongly suggested for high profile businesses. Another goal CG has to achieve in this emerging market is to direct CSR activities since stakeholder's point of view has started to shift to environmental and societal concerns. Song and Zhou (2015) state the present problems for companies are the lack of awareness toward their essence, information asymmetry, and the lack of initiatives and punctuality.

Indonesia uses two-board composition in general, consisting of Board of Directors (BoD) and Board of Commissioners (BoC). BoD has the role to manage the company achieving its objectives and work as a representative of the company both inside and outside the court law. Meanwhile, BoC duties are to monitor BoD performance and the regulations made by the board along with providing BoD with some suggestions (Kurniawan, 2000; ECGI 2009; IAI 2015). Moreover, the government strongly recommends all industries to strive a better CG implementation in order to fulfill the government act. Although only listed companies are required to comply with the rule, unlisted companies, on the other hand, are free to choose (IFC, 2014).

2.4. Corporate Social Responsibility

CSR is considered as corporations' effort to surpass the expectation of the society by doing voluntary disclosure which appears beyond the firms' interests and not strictly regulated. It represents the viability of the business to meet its long-term goals and its sustainability. It means incorporating social and environment aspects into the decision making. Furthermore, CSR underlines the importance of communication with stakeholders in order to be transparent and deemed ethical and responsible for any issues (Golob & Bartlett, 2007; Kirat, 2015).

There is a natural link between CSR and accounting because it has to do with measurement and disclosing information along with the assurance of the information related to CSRs. Additionally, CSRD can be a way to communicate corporate message to the society though it is unclear to what extent can CSRD help the communities understand corporations. Measures of voluntary disclosure allows companies to frame the disclosure agenda and also give them a proactive posture (Tate et al. 2010; Caron and Turcotte 2009; Ballou et al. 2006, Adams 2002). Furthermore, CSR approach to environmental issues is considered as a competitive advantage that can be developed by businesses nowadays (Porter and Van der Linde, 1995; Reinhardt, 1999; Sarkis, 2009).

In the past decades, CSR has always been seen as an opportunity for larger corporations to improve their influence in the society globally. It even was considered as a global trend in some research papers (Carrol and Shabana, 2010; Lu and Castka, 2009). Additionally, seeking profit is not the only objective for businesses nowadays. They must have positive impact to the society and/or stakeholders (Chen and Wang, 2011), ensuring their own sustainability, known as triple bottom line principle that consists of people, environment, and society. Gray et.al. (1987) identifies business are to be hold responsible when they are doing their activities, being responsible not only for maximizing wealth but also for the surrounding areas. Therefore, CSR includes basic responsibility to comply with the standards (taxes, regulations, laws).The firms have to act on the interests of the stakeholders as well as have to influence both environment and the communities, which in return will give the business a sustainable growth.

The application of CSR is regulated by Indonesian Accountants Association, known as Ikatan Akuntansi Indonesia (IAI), in Finance Accounting Standards Statement No. 1 Article 9 (Murwaningsari, 2010). In November 2010, the International Organization for Standardization (ISO) launched ISO 26000, which points out guidance for corporations to manage business responsibly. The more reason for organizations to develop CSR strategies, other than complying with the regulation, is that having an ISO 26000 will give certain accountability to the companies.

Until 2012, it is not a mandatory for companies in Indonesia to disclose their social activities on the financial report. Nevertheless, since 1 August 2012, OJK applied a regulation Kep-431/BL/2012 which obliges all published companies to state their social activities in their financial reports. With both financial and non-financial aspects are present in the annual report, a comprehensive understanding about the performance and sustainability factors is available (Rusmanto, 2015).

Cigarette and tobacco industry, especially in Indonesia, is an enormous industry, which places it with a lot of attention and pressures from the public. Thus, society expects them to have greater influence on the community and demands them to disclose any social responsibility activities (Patten, 1991; Cowen et al., 1987). Moreover, cigarette and tobacco companies are engaging in a business which brings negative impact on the society at the first place, putting them in an even tighter spot and push them to have more CSR disclosures and/or CSR activities.

According to a study conducted by Tandilittin (2015), from 90 CSR activities done by tobacco companies, those activities are categorized into four types of CSR activities, based on their qualitative content analysis. Those are education, community care, environment, and culture, as shown below (Table 1).

Table 2.1 CSR activities of the tobacco companies in Indonesia

CSR Category	**CSR Activities**
Education	Provide scholarships and student loans to students from public school until university, including graduate and postgraduate scholarships at overseas universities. Provide internships, seminars, workshops, and soft skill trainings to students and teachers. Build and provide sport facilities for schools and universities, including sport education centres and sport arenas. Provide mobile libraries for the surrounding communities. Build and provide education facilities for

	schools and universities, including classrooms, training centres, libraries, laboratories, bookshelves, desks, and chairs. Carry out education for primary school up to university, emergency school for the victims of natural disasters, teacher training, and sport education. Provide awards for the best student, best lecturer, and best young innovator.
CSR Category	**CSR Activities**
Community Care	Provide entrepreneurship centres, entrepreneurial training, marketplaces, and exhibitions to small businesses for the surrounding communities. Provide awards for SMEs and young entrepreneurs at the national level. Provide SAR training centres, disaster response training, rescue teams, disaster relief, orphan donations, blood donations, and prevention fire training at the national level. Provide rural water supply, cataract surgeries, mass circumcisions, home refurbishing, fish farming, livestock training, and medical

	checkups for the surrounding communities. Distribute donations and food packages for the local poor.
CSR Category	**CSR Activities**
Environment	Carry out the reforestation of marginal lands, highway greening, refurbishment of urban parks, eradication of dengue mosquito breeding, dengue fever prevention campaigns, waste composting training, mangroves reforestation, and organic farm training at the local and national level. Provide composting machines, nursery seeding centres, and seedlings for the surrounding communities.
Culture	Provide aid for art festivals, music festivals, dance festivals, operas, cabarets, Wayang performances, Reog Ponorogo dance performances, batik festivals, theatre festivals, Indonesian cultural adventures, worship place renovation, and basic need packages on religious holidays at the local and national level. Carry out annual award for journalist and

	reporter, journalistic competitions, homecoming free services on Eid, breaking fasts together, national holidays greeting, Quran reading competitions, Isra Mi'raj commemorations, Ramadhan bazaars, and grand prayers for local and national level.

Source: Tandalittin (2015).

2.5. Financial Performance

Financial performance is a benchmark often used by stakeholders to assess the company's chance to return their investment. It can be analyzed through the financial report that the companies disclose annually, or three times a year in Indonesia. It indicates how well a company performs during the financial year. There are many tools for financial performance measurement. This paper uses Return on Asset and Return on Equity. The data for the financial performance analysis are mainly sourced from annual statements consisting of income statement, cash flow, balance sheet, and the equity of the company, as well as additional nonfinancial information. In the annual statement, there is a financial statement that has valuable information, such as income statement, which holds information about revenues and expenses incurred during the financial period.

2.6. Corporate Social Responsibility Disclosure (CSRD)

Many papers have discussed the topic over CSRD and relate them to several theories like legitimacy theory, agency theory, and stakeholder theory. Over the last decade, there is a rapid growth in number of firms disclosing their nonfinancial information related to environmental preservation and social problems such as human rights, contribution to society, and environmental concerns in the annual report or separate CSR report. Neu et al. (1998) and Smith et al. (2005, 2010) believe that the extent of CSRD level is driven by the orientation of the country's stakeholders. Furthermore, the public awareness of CSR disclosures and regulations in place put more pressure for companies fulfilling the interest of stakeholders. Understanding the moderating effect of a country's stakeholder orientation provides new perspectives into pertinent CSR issues (Dhaliwal et al., 2014). CSRD points out nonfinancial information which may hold significant considerations in assessing the firm value (Dhaliwal et al., 2014).

Tan, Benni, & Liani (2016), in their study, mention the determinants of CSRD among business firms. They examined the effect of firm size, media exposure, and industry sensitivity to CSRD and the investors' reaction. The exposure of media is strongly related to the level of disclosure. Because of the public pressure, the media could give the pressure to the business firms, making them to react towards the pressure by giving out more disclosures. Larger companies tend to get more attention from the public due to its extensive operations, and the supposed to have more impact to the society. Additionally, business firms who bring significant impact to the environment and society also have been given more pressure by the public. Thus, the attention and the expectations from the society drive the firms to conduct corporate social responsibility. A study in Indonesia by Achmad and Faisal (2016) gives several insights from Indonesian public companies. This study points out that there are two perspectives to interpret companies' motivations to engage in community contributions. Community contributions are seen as a mean to show that the corporations have concerns for the society and to show their responsiveness to various stakeholders.

2.7. Theoretical Framework

Corporate Governance (CG) is a mechanism that helps business aligning the interest of principals and managers, reducing agency costs, and achieving a better overall business performance. Murwaningsari (2016) suggests that it is mandatory to implement good corporate governance practice to gain public confidence and international community. CG provides guidelines on how accompany should be managed in order to achieve its goals to add value to the business, satisfy stakeholders, and generate long term benefit along with going concern assumption (Jamila et al., 2016).

Managers as agents should act on behalf of stakeholders who include other parties than just the principals such as government, customers, creditors, and investors. Each of them has their own interests toward the corporation, but not all of them are addressed fully by the corporations. Ullmann (1985) says that there is an extent to which a stakeholder influences the business to allocate the resources. The greater the influence, the higher the chance that the interest of a particular stakeholder will be addressed (Deegan and Blomquist, 2006). Exceptional business firms are the ones who can efficiently address the needs of diverse influential stakeholders. Regarding this, Ullmann (1985) also says that the greater the position of the stakeholder, the more likely for the business firms to incorporate the stakeholder's expectation to its business operations. The more effective managers in addressing these expectations, more profit will be generated.

The explanation above supports many activities undergone by business firms nowadays, such as more community contributions and CSR disclosure. Bani-Khalid and Ahmed (2017) mention a shifting focus toward CSR activities from business firms. In fact, CSR has been a factor that balances the needs of shareholder and stakeholders. Jones (1980) has also said that CSR is an extended traditional duty to societal groups like customers, employees, suppliers, and neighbouring communities. That being said, the awareness of environmental issues has increased dramatically since global warming gotten real with the melting ice caps.

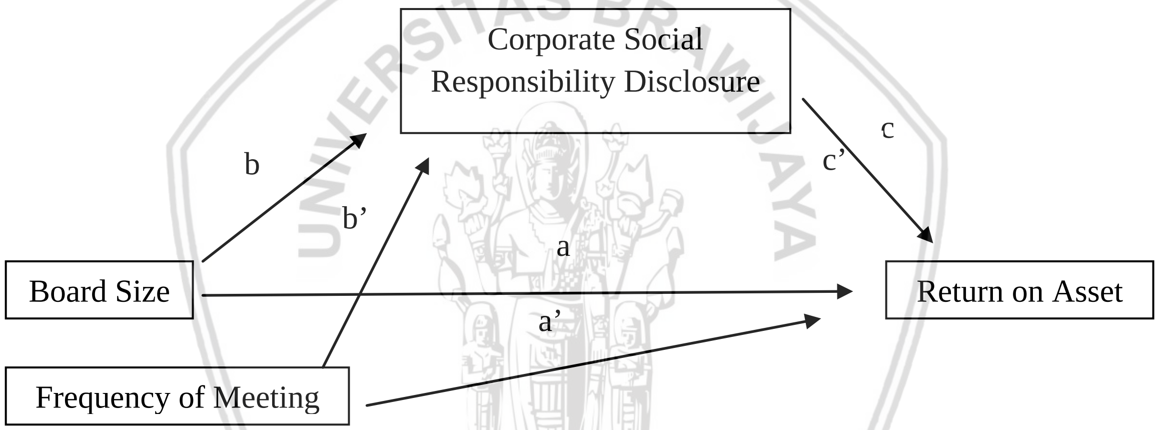
Moreover, companies are also having some times to grasp about issues like gender equality, racism, sexism, feminism, and other sensitive issues that take place in the society. The philosophy of CSR is improving in an undeniably fast pace in both literature and application; it has become a global trend according to Bani-Khalid and Ahmed (2017).

In order to keep up with the expectations and trend, managers try to conduct CSR activities and disclosures. Addressing the community contribution will gradually increase the image of the business firm and make it more favourable than those who do not give any benefit to the society. Until 1 August 2012, there were no specific rules that regulate the CSR disclosures in Indonesia (Rusmanto and Williams, 2015). The Indonesian government through the financial service authority (OJK) published a regulation stating that all published companies must report their social activities in their financial reports (Rusmanto and Williams, 2015). It is expected that the reader can have detailed information about the performance and sustainability of the business firms through financial and nonfinancial disclosure from all listed companies.

All in all, the relationship between corporate governance and company financial performance mediated by corporate social responsibility disclosures is depicted on the following figure. The theories that highlight this paper are agency theory and stakeholder theory. According to both theories, corporate governance should have had serious number of CSR disclosures since it will increase the image of the firms and consequently, its sales, from which the managers will be rewarded with bonuses upon the great performance.

Further, the theoretical framework of this research is divided into two figures. The first figure represents the multiple regression analysis toward Return on Asset (ROA) and the following figure is about the analysis toward Return on Equity (ROE). The figures are as follow:

Figure 1. Theoretical Framework



This model covers these hypotheses in the research:

H1a: Board Size has a positive impact on Return on Asset

H1c: Frequency of Meeting has a positive impact on Return on Asset

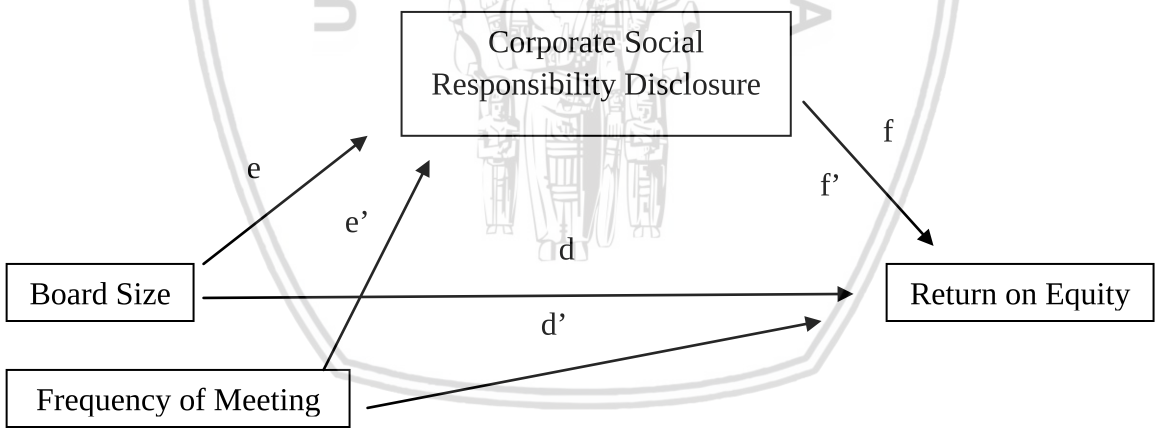
The first hypothesis formulate that Corporate Governance has a positive impact on Financial Performance. Therefore, H1 fails if a and a’ were not significant. On the other hand, if a and a’ were significant, H1 is proven true.

The second hypothesis formulate that Corporate Governance has a positive impact on Financial Performance through Corporate Social Responsibility. Therefore, H2 fails if b and b’ were not significant. On the other hand, if b and b’ were significant, H2 succeed if the value of c and c’ are significant.

H2a: Board Size has a positive impact on Return on Asset through Corporate Social Responsibility Disclosure

H2c: Frequency of Meeting has a positive impact on Return on Asset through Corporate Social Responsibility Disclosure

Figure 1B. Theoretical Framework



This model covers these hypotheses in the research:

H1b: Board Size has a positive impact on Return on Equity

H1d: Frequency of Meeting has a positive impact on Return on Equity

The first hypothesis formulate that Corporate Governance has a positive impact on Financial Performance. Therefore, H1 fails if d and d’ were not significant. On the other hand, if d and d’ were significant, H1 is proven true.

The second hypothesis formulate that Corporate Governance has a positive impact on Financial Performance through Corporate Social Responsibility. Therefore, H2 fails if e and e’ were not significant. On the other hand, if e and e’ were significant, H2 succeed if the value of f and f’ were significant.

H2b: Board Size has a positive impact on Return on Equity through Corporate Social Responsibility Disclosure

H2d: Frequency of Meeting has a positive impact on Return on Equity through Corporate Social Responsibility Disclosure

2.8. Past Research and Hypotheses Development

Tobacco and cigarette industry is categorized as a business that degrades the morale and health of the society. Therefore, they rigorously try to improve their image by conducting many CSR activities and positive reporting. In fact, there is a study that proves that CSR activities from cigarette business have resulted in rapid increase on smoking behavior among smokers (Arli, 2013). According to Wang (2017), there are two types of CSR engagement with many possible outcomes. The study reveals that rigorous CSR implementation may cause superior CSR outcomes and enhance the business environment, thus, causing greater financial return. However, symbolic CSR implementation will only cause inferior financial return and widen the legitimacy gap. Most studies about Indonesian market often took place in banking and manufacturing industry, so this study is trying to comprehend whether tobacco and cigarette industry has a similar phenomenon as in other industries.

CSR topics and its implementation have been used in many prior researches. Achmad (2016) conducted a research through multi lens theoretical framework to determine what factors that influence community contributions in Indonesian market. The result shows that high profile industries and state-owned business tend to make more CSR engagements. In general, enterprises in drug section use CSR movements to show their concern toward the society's health, and hope, in return, that they can get easier access to test their medication and treatments.

2.8.1. Corporate Governance and Financial Performance

Agency theory stipulates that, in managing business, the agents tend to have their own agenda while doing what they supposed to do or the owners ask them to do (Eisendhardt, 1989). CG is broken down into customs and systems that align the interest of the managers and stakeholders. In accordance to Kaihatu, CG is implemented to improve company's performance and its accountability for stakeholders within the boundaries set by the applicable laws.

A previous study conducted by Duyu, Iyemgar, and Zampeli (2016) tried to measure the dynamic model of the relationship between firm performance and corporate governance using board leadership structure as the variable. The results were a negative relationship within a joint leadership structure and a positive moderation by board independence. Rebeiz (2017) claims that having independent board presents at the management reduce the chance of conflict interests and other agency problems. With this advantage, independent board is expected to manage the business more favourably. Another study by Diallo (2017) supports that better corporate governance grants better access to financing, which leads to lower cost of credit and higher valuation on the corporation.

Wahyudin and Solikhah (2017), in their study, discuss about CG implementation in Indonesia characterized by Corporate Governance Perception Index (CGPI) rating. This rating is a program which has been implemented since 2001 by Indonesian Institute for Corporate Governance (IICG). They mention that agency costs resurface due to moral hazard. Common cases are manager who do not do their duties in accordance to their employment agreement. Good CG has a crucial influence in assuring the management's credibility and companies supervisory in place. This paper concludes that company with higher CGPI rating clarifies the company's transparency, accountability, independency, responsibility, and fairness, leading to a good outcome of financial performance measured through RoA, RoE, and EPS.CG mechanisms are being put in place to give assurance to investors, therefore, gaining trust and bigger chance to be invested (Lukas and Basuki, 2015). If the CG mechanism is questionable, less investor is willingly put their money on the business; leading to financial problems that may arise due to lack of funds.

Additionally, there was a study for corporate governance of parents and subsidiary companies owned by the government in Indonesia (BUMN). There was a common problem called “board member duality”, an interlocking directorship between a parent and company and subsidiary. It refers to a director of the parent company who is also a commissioner in the subsidiary company (Widodo, 2017), causing gap and potential information asymmetry similar to CEO duality, interlocking, and multiple directorships. Thus, the first hypothesis is formulated as follows.

H1a: Board Size has a positive impact on Return on Asset

H1b: Board Size has a positive impact on Return on Equity

H1c: Frequency of Meeting has a positive impact on Return on Asset

H1d: Frequency of Meeting has a positive impact on Return on Equity

2.8.2. Corporate Governance and Financial Performance through Corporate Social Responsibility Disclosure

Another theory that is used is stakeholder theory. It suggests that the expectations from stakeholders influence the business flow. Along with the raising awareness of environmental issues, CSR activities have been strongly demanded by the stakeholders because it is deemed important to know whether the firm could hold the assumption of going concern or not. Maximizing profit is not the only objective, but also sustainability. Investors need to be assured that their investment will not go into a waste or do any harm to the environment and/or society. Therefore, companies that have more positive impact to the society tend to do better compare to those that have less impact.

There are many studies about CG, financial performance, and CSRD. The results derived from previous literatures are mixed and indecisive, helpful in choosing variables although conducted in various circumstances. Bidhari et al. (2013) did a research to analyze and explain the effect of CSRD on FP and firm value in banking industry listed in the Indonesia Stock Exchange (IDX). It used secondary data such as financial statements and annual reports from 15 listed banking companies within 2008 – 2011 and used path analysis. The result shows that CSRD affects all financial performance indicators such as Return on Asset (ROA), Return on Equity (ROE), and Return on Sales (ROS), as well as firm value measured using Tobin's Q.

There is also a research aiming at looking up factors that influence CSRD (Tan, 2016). This study tried to further examine the effect of firm size, media exposure, and industry sensitivity on CSRD and their influence on investors' reaction. The samples were taken from 53 companies, and the data were analysed using partial least square path modelling. The result shows that firm size, media exposure, and industry sensitivity have a crucial effect on CSRD, but they do not directly influence investors' reaction. The research of Bani-Khalid and Ahmed

(2017) explains the conceptual shifting of CSR as it was interpreted as an implicit relationship between organizations and its society. They found a shift in terms of the underlining reason of doing CSR approaches and that the main objective of a business is not only generating business but also integrating approach toward social and environmental issues. It is expected to expand the understanding on how this particular topic evolves.

Another study conducted in China tries to learn further about the relationship between CG, CSRD, and enterprise value of heavy pollution listed companies during 2008 – 2014 (Liu, 2017). A declining output of social responsibility disclosures was found among listed corporations that cause heavy pollution. In addition, various CG aspects affect the social responsibility disclosure output to a certain extent. The results are that CSRD is not beneficial for short-term profit of an enterprise, but it can add an incremental value to the corporations and that a high level of CG is favourable for legitimacy management, likewise disclosure of social responsibility information in general.

Previous researches have shown mixed results for the relationship between CSR and corporate financial performance. A further research was conducted to investigate the mediation effect of CSR outcomes on the relationship between CSR governance and financial performance (Wang et al., 2016). They looked up CSR governance and outcomes data from the Bloomberg environmental, social, and governance (ESG) database and financial performance from COMPUSTAT database. The samples were top 500 green companies in the US from 2009-2013.They found that CSR outcomes mediated CSR governance and financial performance. The results above show that companies that apply CSR governance have good outcomes, which significantly influence the companies' financial performance. Given the explanation about previous studies and current study, another hypothesis that will be tested is written below.

H2a: Board Size has a positive impact on Return on Asset through Corporate Social Responsibility Disclosure

H2b: Board Size has a positive impact on Return on Equity through Corporate Social Responsibility Disclosure

H2c: Frequency of Meeting has a positive impact on Return on Asset through Corporate Social Responsibility Disclosure

H2d: Frequency of Meeting has a positive impact on Return on Equity through Corporate Social Responsibility Disclosure

CHAPTER III

RESEARCH METHODS

3.1. Research Type

This study uses quantitative method to examine the relationship between variables. A quantitative study is an approach to test their theories and/or hypotheses through numerical data analyzed using mathematical means (Simion, 2016). Quantitative study provides with a number of analysis along with a systematic overview of the research subjects and comparisons across immense group of people (Simion, 2016).Furthermore, it will allow the researchers to get a statistical conclusion over the data collected and measured using the conceptual limitations and theories explained in the literature review section.

The software used to do the statistical analysis is SPSS. Regarding the type of analysis, it would be path analysis to search for the relationship between variables. This research paper replicates the previous study (Wang et al., 2017). Regarding sample and data collection, statistical model, and data analysis method will be explained further in the following sections.

3.2. Population and Samples

According to Sekaran and Bougie (2013), population is the whole group of people, events, or things of interest that the researcher(s) seek to comprehend. Sample, on the other hand, refers to a subset of population (Sekaran and Bougie, 2013).In this study, the population and samples are taken from the pharmaceutical and cigarette industry in Indonesia listed on Indonesia Stock Exchange (IDX) from the period 2014-2017. This industry is specifically taken as a sample because the listed companies hold about 75 percents of the market which shows how immense the business is. Furthermore, the industry is a high profile industry which put more pressure to make CSR engagements. Although those engagements are still controversial, many people are helped through the scholarship programs given by the business.

Regarding the pharmaceutical industry, given the movement from the government launching the national healthcare program, it has given the industry a boost on the generic drug demand which brought good impact to local businesses. In general, pharmaceutical enterprises also use CSR disclosure to engage hospitals and their staff to allow them testing their drug as well as to gain trust. In addition to selection period, in 2014 the national healthcare program was launched and it gave a considerably blow to the society and improve the accessibility to health attention. Furthermore, it was under the new president Joko Widodo which also influenced the economy as a whole.

During the selection of samples or population, the researcher uses some requirement to make the study easier and more dependable. This particular sampling method chooses samples which match the criteria given before and adjusted for the sake of the study usually called Purposive Sampling Method (Sekaran and Bougie, 2013). Those requirements are as follow:

1. The companies have to be listed on IDX for the period of 2014 – 2017. A company that delisted or went public during the period would be excluded. By the end of 2015, Indonesia has been a part of the ASEAN Economic Community which urged Indonesian companies to improve their accountability, by having more CSRDs and better CG implemented for the business.

2. The companies must have comprehensive annual reports along with the information of their board of directors. They have to at least consist of financial statements, frequencies of meeting, and any CSR activities being done.

3. Any financial data or statements of the company must be made available and audited by independent auditor within the selected period.

4. The currency used in the financial reports must be Rupiah.

Corporations which do not meet the criteria above will not be chosen as samples due to lack of feasibility and/or information that would sway the statistical analysis and therefore, affect the whole research.

3.3. Type and Source of Data

Data used are mostly secondary data which are taken from annual report of each company. Secondary data refer to data which are not collected directly by the researcher (Sekaran and Bougie, 2013). Most of the data are collected from Indonesia Stock Exchange (IDX) database containing annual report from all listed companies. Furthermore, this study could be considered as a longitudinal research due to its data collected through the period of time (Sekaran and Bougie, 2013). Additionally, the aims of longitudinal study are to observe and assess various conditions and developments happen at the set of variables within the predetermined period of time.

3.4. Variables

3.4.1. Independent Variables (Corporate Governance)

1. Board Size

With the advancement of modern technology and globalization, the border between countries has diminished completely, bringing up corporate governance to the frontline against ineffective business activities. Several studies say that larger boards are less effective than smaller boards due to co-ordination problems in larger boards (Lipton & Lorsch, 1992; Jensen, 1993).They suggest limiting the number of board to ten people, with a preferred size of nine or eight. They further explained that despite the increase in monitoring capability due to larger boards, the benefit is simply outweighed by slower decision making, less candid discussions of managerial performance, and bias against risk-taking. On the other hand, Hermalin and Weisbach (2001) argued that there is a negative relationship between board size and corporate performance. Overall, the literature studies related to board size is inconclusive.

Specifically, this study will measure the size of board of directors within the chosen corporations due to its role in managing operational activities daily. Resource dependence theory sees board size as a measurement to organization's ability to create environmental links to secure critical resources (Dalton et al., 1999). In Indonesia, there are boards of directors (BoD) and boards of commissioners (BoC) which have different role. This study will look upon the BoD size since it is seen as the main mechanism which maintains the efficiency of operational activities and the one who make decisions.

2. Frequency of Meeting

The other measurement is the frequency of board meeting, BoD meetings in particular. Conger et al. (1998) and Byrne (1996) claimed that board of directors who conducts meeting often are more likely to perform better and in accordance to shareholders' interests. In addition, Vafeas (1999) stated that a way to improve poor performance of a company is to increase the frequency of meetings. He also mentions that frequency of meeting is an important dimension of board operations. Meanwhile, Jensen (1993) argued that board meetings are not necessarily useful because, given their limited time; they cannot be used for meaningful exchange of ideas among directors or with managers.

In this study, the frequency of meeting will focus more on the BoD meetings or meetings which conducted to discuss about operational matters. Unlike the previous studies mentioned above, this study analyzes Indonesia firms which have two boards consist of BoD and BoC. In addition to previous studies, some of them mention the important of board meeting related to the company's performance and daily operations. In Indonesia, that board in particular is called board of directors while board of commissioners is responsible to monitor the BoD activities for the sake of shareholders' benefit.

3.4.2. Dependent Variable (Financial Performance)

Dependent variable is a variable whose affected and value rely on the independent variable(s) (Sugiyono, 2004). In this study, the dependent variables will be derived from the financial performance of listed companies on IDX. In order to measure the financial performance, this study uses Return on Asset (RoA) and Return on Equity (RoE). The following dependent variables are financial ratios; financial ratio is further defined by Kabajeh et al. (2012) as a relationship between two quantitative financial information related in a logical manner and valuable to particular users. The financial information is used in almost all economic events like investing and evaluates firms' performance.

1. **Return on Asset (RoA)**

Rate of return on assets (RoA) is a measurement of the firm's ability in managing its assets to yield earnings independent of the financing (debt versus equity) of those assets (Selling and Stickney, 1989). Additionally, Hax et al. (1984) claimed that ROA is the one of the most widely used profitability ratios in organizational and strategic analysis. The formula for calculating RoA is as follow:

$$Return\ on\ Asset = \frac{Net\ Profit\ before\ Interest\ and\ Tax\ Expense}{Total\ Assets}$$

This rate is considered able to capture the overall performance of the company and estimate how efficient the managers are handling the company and allocating assets. This ratio is chosen to measure the operating efficiency of the company based on its generated profit divided by total assets. High value of RoA indicates that the company is exploiting the assets well, which is preferable for the investors (Heikal, Khaddafi, & Ummah, 2014).

2. **Return on Equity (RoE)**

This ratio determines the rate of investment return from related company; it focuses solely to the equity component of the investment. Furthermore, Damodaran (2007) mentioned that much of what said about return on capital in terms of timing and book values apply to this measure as well. The net income from the current year is assumed to be generated by the result of early investment at the beginning of the year using book value to calculate the equity invested on the current assets. The formulated ratio is a written below.

$$Return\ on\ Equity = \frac{Net\ Profit\ before\ Interest\ and\ Tax\ Expense}{Total\ Shareholders\ Equity}$$

Ang (2001) stated that the higher RoE, the higher a company's profit growth. RoE measures the profitability of the investment made from the shareholders' capital and/or the capital from the company itself. In addition, Irawan (2011) also found that RoE affects profit growth. This is because the nature and pattern of investments which are accurately planned to efficiently allocate the assets and thus, maximize profits. In addition to the revenue generated by capital from debt can be used to cover the cost of capital (Heikal, Khaddafi, & Ummah, 2014). RoE is chosen because it provides the investors information about how well their investment will be managed.

3.4.3. Mediating Variable (Corporate Social Responsibility Disclosure)

Mediating variable is a variable used to explain the relationship between independent variable and dependent variable, acting as a third hypothetical variable (MacKinnon et al., 2007). Mediating variable suggests that independent variable influences mediating variable, which eventually influence dependent variable. Mediating variable presents in order to explain further the relationship of independent and dependent variable.

This study will use a mediating variable measured with the existence of corporate social responsibility disclosure (CSRD). CSR activities used to be voluntary actions but in 2007, Indonesia stipulated a regulation and was the first country to make CSR approach a mandatory. Though the implications were not that strict, a decade later many powerful stakeholders demand CSR information disclosed to them. This treatment is directed to all business firms, especially firms with direct impact to the society like tobacco and pharmaceutical industries. Wang Z. and Sarkis J. (2017) in their study brought up CSR as their mediation variable on CSR governance and financial performance relationship. In measuring the existence of CSRD, this study uses a benchmark known as SRI Kehati Index widely known in Indonesian market. The checklist consists of 7 categories: environment, energy, labor's health and safety, miscellaneous for work force, product, society's involvement, and general term. Sayekti and Wondabio (2007).

3.5. Data Collection Method

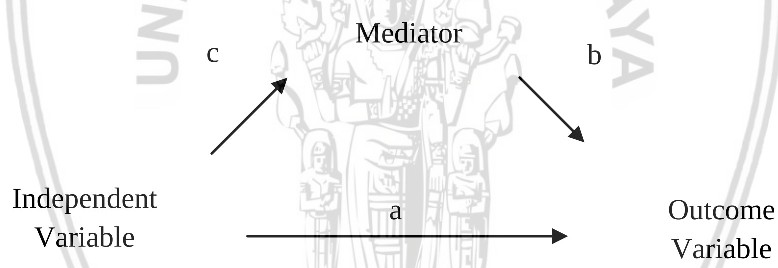
Data are collected mostly from web. Most resourceful website is the Indonesian Stock Market database (IDX). Annual reports are collected from the database from 2014-2017.Indonesia was the first country to enforce the implementation of CSR activities into a regulation, but the implementation is still considered poor among the business firms. In 2010, ISO launched ISO 26000 about social responsibility but this is also no means to enforce companies in doing CSR engagements. These facts show that Indonesian government is having difficulties to have companies implement CSR activities. In 2015, there was a fire in Borneo forest which went viral and made people realize how important is keeping our nature intact. Since the end of 2015, Indonesia has been a part of the ASEAN Economic Community. But before 2015, there is an urgency to improve Indonesian business by implementing better corporate governance and raise awareness about how crucial CSR disclosures to international stakeholders. Thus, 2014 is chosen as the beginning of this study date.

3.6. Data Analysis Method

Path analysis is used to examine the direct effect and indirect effect between variables. It is deemed appropriate to make use of this method when theoretical, empirical, and common sense knowledge of a problem provide a convincing layout of latent variables present and their probable causal links (Cook et al., 1979).This study will use the mediating regression analysis method which consists of three variables in the model; those variables are independent, mediating, and dependent variables. Woodworth’s (1928) S-O-R model stated that an active organism intervenes between stimulus and response is maybe the most generic formulation for a mediation hypothesis. Mediating variable as a third variable represents the generative mechanisms through which the focal independent variable is able to influence the dependent variable (Baron and Kenny, 1986).

In general, the relationship model below is the most common three-variable system which has two causal paths leading to one possible outcome variable. The first impact is path c, a direct impact from independent variable and then path b, impact of the mediator. Finally, there is also other direct influence from independent variable to dependent variable (Baron and Kenny, 1986).

Figure 2. Conceptual Model of Mediating Effect



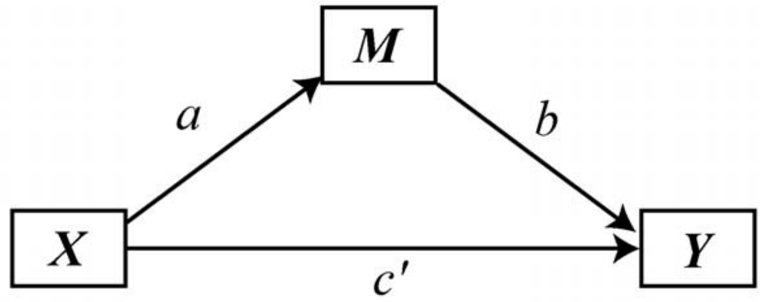
Baron and Kenny study (1986) described how to commonly do a mediation test through a few steps:

"To test for mediation, one should estimate the three following regression equations: first, regressing the mediator on the independent variable; second, regressing the dependent variable on the independent variable; and third, regressing the dependent variable on both the independent variable and on the mediator. Separate coefficients for each equation should be estimated and tested. There is no need for hierarchical or stepwise regression or the computation of any partial or semi partial correlations."

The regression equations above provide the tests of meditational model; the following conditions are required to be met before to establish a meditational model. First, the first equation is about independent variable affecting the mediating variable. Next equation is about independent variable and its direct impact to dependent variable. Lastly, the equation related to mediating variable affecting dependent variable (Baron and Kenny, 1986).

Further, this method is also known as the causal steps approach which was popular because of Baron and Kenny (1986). It requires researchers to estimate the relationship between each path between variables in the statistical model and confirm the function of a mediating variable looking at a few conditions. Hayes (2009)pointed out the condition that, for example, if both a and b paths in a model such as Figure 2B are statistically significant and c' is closer to zero than c, then M is deemed a mediator of the relationship between X and Y. Some assess whether one's data meet these criteria only if there is evidence of a total effect of X (i.e., if c is statistically significant), one of the requirements of mediation outlined by Baron and Kenny (1986). If the significance of c is not used as a prerequisite to further examination of the paths, then this causal steps approach is sometimes called a test of *joint significance*."

Figure 2B. (Hayes, 2009)



Moderating variable is used in order to manipulate the outcome variable by enhancing or weakening the influence of independent variable on different levels of moderating variable (Bennet, 2000; Cohen & Cohen, 1983). A mediator offers a change in the relationship between independent and outcome variable, allowing a more accurate depiction of their relationship (Baron & Kenny, 1986).

This method consists of three regression equations for the statistical significance of mediator effect. First equation would show whether independent variable has significant influence over the mediator. Next, the independent variable is a significant predictor of the outcome variable. Third equation is where independent and mediating variable present altogether with the outcome variables. The following conditions are also needed in the third equation when the mediating variable is present: (a) the mediating variable is significance over the outcome variable and (b) the direct relationship of the independent variable to the outcome variable is less significant than it was in the second equation (Baron & Kenny, 1986).

Furthermore, the research models in this research are shown as follows:

$$ROA = \alpha + \beta_1 BS + \beta_2 FM + e$$

$$ROE = \alpha + \beta_1 BS + \beta_2 FM + e$$

ROA: Return on Asset; ROE: Return on Equity; BS: Board Size; FM: Frequency of Meeting

The direct relationship between the independent variable and dependent variable should be significant. If it is not significant, then the independent variable could not be tested further for any hypothesis.

$$CSRD = \alpha + \beta_1 BS + \beta_2 FM + e$$

CSRD: Corporate Social Responsibility Disclosure

Next, the mediating variable is regressed toward the independent variable to test whether the mediating variable is able to be used in the research. This relationship is also need to be significant.

$$ROA = \alpha + \beta_1 BS + \beta_2 FM + \beta_3 CSRD + e$$

$$ROE = \alpha + \beta_1 BS + \beta_2 FM + \beta_3 CSRD + e$$

These model points out the multiple regressions used to find the mediating effect of this research. If the results of BS and FM are not significant, then they are fully mediated by CSRD. If the results are significant, the value of β_1 and β_2 need to be examined further. If they were negative, then they were partially mediated; if they were positive, they are not mediated by CSRD.

CHAPTER IV

RESULTS AND DISCUSSIONS

4.1. Descriptive Statistics Results

This section provides descriptive analysis to identify the variables further. In particular, this analysis is to explain how strong CSRD mediates the relationship between CG and FP among Indonesian listed firms; tobacco and pharmaceutical industry, precisely. The descriptive results are shown below.

Table 4.1 Descriptive Statistics

Variables	Mean	Std. Deviation	Min.	Max.
BS	5.303	1.571	3	8
FM	16.121	10.781	4	51
CSRD	3.636	1.194	1	5
ROA	0.097	0.121	-0.208	0.359
ROE	0.082	0.384	-1.757	0.754

See Appendix; BS: Board Size; FM: Frequency of Meeting; CSRD: Corporate Social Responsibility Disclosure; ROA: Return on Asset; ROE: Return on Equity

1. Board Size

Based on the table above, it can be seen that, in average, tobacco and pharmaceutical companies have 5 directors present on board. The boards consist of various people needed by company with certain set of skills to make vital decisions. During 2014, companies are preparing themselves to be part of the ASEAN Economic Community by the end of 2015. Improving businesses to attract more investors is very imminent at that time and some companies chose to increase the board size to acquire more skill sets in their board of directors. There are companies with minimum 3 members on board and there are companies with 8 members at most present on board.

2. Frequency of Meeting

The regulation to disclose CSR activities are made back in 2012 by the government financial division (OJK) but the implementations are not that popular among the industries. As time passes, CSRDs have become somewhat a trend with their significance shifted. They have become mandatory in a very quick succession, urging the companies to act immediately to the change. Which consequently, make the directors have more meetings to discuss about the demand from stakeholders while ensuring the company's going concern assumption. The minimum meetings conducted throughout the year are 4 and the maximum is 51.

3. Corporate Social Responsibility Disclosure

Over the period of 2014 – 2016, CSRDs have gradually increased due the stakeholders' awareness toward social and environmental issues. It had become a benchmark for businesses to disclose any social and environmental approach that they had done to legitimate their businesses, to gain trust and boost their image, and to comply with the regulations. The CSRD is measured with SRI Kehati Index which is further broken down to 7 categories. The index is not widely implemented by listed companies, so they only fulfil 1 category and 5 categories at most.

4. Return on Asset (ROA)

Based on the table, tobacco and pharmaceutical industries have the average positive performance with the average of 9.7% or 0.097. There were companies with poor performance having a negative ROA and there were companies with the best ROA performance at 35.9% or 0.359. Tobacco industries have shown a declining trend since 2014, there were several factors affecting this phenomenon. Those are the rising tax from the government and the rising awareness from the citizen toward public health. In addition to pharmaceutical industry, Yunus et. al (2016) mentioned that the sales performance of the whole industry in Indonesia has been declining for five years.

5. Return on Equity (ROE)

ROE performance in average is lower than ROA performance at 8.2% or 0.082. There were times when the market was rough, indicated by the negative performance by a handful companies and the best performance was 0.754 or 75.4%. Excise tax revenue realization in the domestic cigarette industry dropped in 2017 in spite of the implementation of an average 12.26 percent excise on retail cigarette prices at the start of that year (Indonesia Investment, 2018). Supply chain in pharmaceutical industry is highly regulated by the government, making it a bit rough for the business. Additionally, the pharmaceutical industry in Indonesia is included in the Negative List Investment (Yunus et. al, 2016) due to the ownership restriction regulated by the government.

4.2. Multiple Regression Analysis Results

Table 4.2 Multiple Regression Analysis Results

	Coefficient	t value	sig.	Research Model
	Return on Asset			
Board Size	0.044	3.913	0.000	1
Frequency of Meeting	0.000	0.790	0.938	
	Return on Equity			
Board Size	0.096	2.374	0.024	2
Frequencey of Meeting	0.005	0.857	0.398	
	Corporate Social Responsibility Disclosure			
Board Size	0.059	0.431	0.669	3
Frequencey of Meeting	0.440	2.424	0.021	
	Return on Asset			
Board Size	0.044	3.815	0.001	4
Corporate Social Responsibility Disclosure	0.008	0.508	0.615	
	Return on Equity			
Board Size	0.092	2.290	0.029	5
Corporate Social Responsibility Disclosure	0.058	1.088	0.285	

In regards to CSRD as a mediating variable, independent variable measured using 2 proxies; the first proxy to be tested is board toward CSRD beforehand. Testing whether board size is mediated by CSRD or not. Direct analysis of Board Size toward CSRD can be seen on the table 4.2. The hypothesis tested is:

H_2: Corporate Governance has significant influence on Financial Performance through CSRD.

The table shows that beta coefficient is at 0,059, t value at 0,431 and probability 0,669 (p>0,05). It indicates that BS is not significant toward CSRD.

Furthermore, CSRD is tested with the other proxy of CG, namely frequency of meeting. Direct analysis of meeting frequency toward CSRD can be seen on the table 4.2. The hypothesis tested is:

H_2: Corporate Governance has significant influence on Financial Performance through CSRD.

The table shows that coefficient is at 0,440, t value at 2,424 and probability at 0,021 ($p<0,05$). It indicates that FM is significant toward CSRD.

Direct analysis of Board Size toward ROA can be seen on the table 4.2. The hypothesis is:

H_1 : Corporate Governance has significant influence on Financial Performance.

The table shows that beta coefficient is at 0,044, t value at 3,913 and probability at 0,000 ($p<0,05$). It indicates that BS is significant toward ROA. Direct analysis of FM toward ROA can be seen on the table 4.2. The table shows that beta coefficient is at 0,000, t value at 0,079 and probability at 0,938 ($p>0,05$). It indicates that FM is not significant toward ROA.

Direct analysis of Board Size toward ROE can be seen on the table 4.2. The hypothesis is:

H_1: Corporate Governance has significant influence on Financial Performance.

The table shows that beta coefficient is at 0,096, t value at 2,374 and probability at 0,024 ($p<0,05$). It indicates that BS is significant toward ROE. The table also shows that beta coefficient of FM is 0,005, t value at 0.857 and probability at 0,398 ($p>0,05$). It indicates that FM is not significant toward ROE.

Multiple regressions analysis of Board Size toward ROA through CSRD can be seen on the table 4.2. The hypothesis is:

H_2 : Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient for BS is at 0,044, t value at 3,815 and probability at 0,001 ($p<0,05$). It indicates that BS, mediated by CSRD is significant toward ROA. Furthermore, the table shows that beta coefficient for CSRD is at 0,008, t value at 0,508 and probability at 0,625 ($p>0,05$). It indicates that CSRD has no significant influence on ROA. R square value shows that BS and CSRD contribute 33.6% to ROA; the other 66.4% is caused by other factors than BS and CSRD, provided on the appendix.

Multiple regressions analysis of FM toward ROA through CSRD can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient is at 0,000, t value at -0,203 and probability at 0,841 ($p>0,05$). It indicates that FM through CSRD is not significant toward ROA. In addition, the table shows that beta coefficient of CSRD is 0,014, t value at 0,687 and probability at 0,497 ($p>0,05$). It indicates that CSRD has no significant influence on ROA. R square value shows that FM and CSRD contribute 1.6% to ROA; the other 98.4% is caused by other factors than FM and CSRD, provided on the appendix. In addition to the multiple regressions analysis of Board Size toward ROE through CSRD, it can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows that beta coefficient is at 0,092, t value at 2,290 and probability at 0,029 ($p<0,05$). It indicates that BS, mediated by CSRD is significant toward ROE. Next, the table shows that beta coefficient of CSRD is 0,058, t value at 1,088 and probability at 0,285 (p>0,05). It indicates that CSRD has no significant influence on ROE. R square value shows that BS and CSRD contribute 18.6% to ROE; the other 81.4% is caused by other factors than BS and CSRD.

Multiple regressions Analysis of FM toward ROE through CSRD can be seen on the table 4.2. The hypothesis is:

H_2: Corporate Governance has significant influence on ROA through CSRD

The table shows beta coefficient 0,003, t value of 0,421 and probability 0,677 (p>0,05). It indicates that FM through CSRD is not significant toward ROE. Moreover, the table shows that beta coefficient of CSRD is at 0,057, t value at 0,908 and probability at 0,371 (p>0,05). It indicates that CSRD is not significant toward ROE. R square value shows that BS and CSRD contribute 4.9% to ROE; the other 95.1% is caused by other factors than FM and CSRD.

4.3. Discussions

4.3.1. Corporate Governance Has a Direct Impact on Financial Performance

This paper hypothesized that CG has significant influence toward FP on business firms. Previous studies have resulted many arguments but most of them prove that CG positively affects FP in a direct relationship with various proxies. CG is commonly measured using board independence and managerial ownership while FP is measured using ROA and ROE with additional firm value which measured with Tobin's Q in some literatures. This paper uses Board Size (BS) and Frequency of Meeting (FM) to measure CG while. Taken from the statistical result, BS is proven significant toward both FP proxies, it is similar to a study in a banking industry which stated that BS positively relate to FP (Belkhir, 2009).

The size of board directors can influence the operational efficiency of a firm. It is expected that the more members present on board, the more effective the decision made due to more people with various skill set and background. In addition, more members are needed in order to manage a bigger company with also a lot more resources compared to smaller ones (Birnbaum, 1984; Dalton et al., 1999). Thus, more members enhance the efficiency of the firm in handling the business, which in return give higher ROE and ROA. CEO duality is often found in companies with small boards, with a fewer numbers there's a higher chance for a person to have more position which leads to CEO duality. Thus, larger board is preferable with greater monitoring activity from the board members themselves.

Meanwhile, FM is not proven significant toward any FP proxies in this research. In general, more meetings lead to more expenses or more urgency to discuss over a specific period of time (Hahn and Lasfer, 2016; Vafeas, 1999). Taken from the annual reports from the listed companies, all of them hold the board meeting for at least once a month and every 3 months the board of commissioner also join the meeting. Unless it is deemed necessary, most companies only have monthly meetings. From 3 years of observation, the most meetings held were 19 meetings on average in second year. Though the meetings may discuss about any urgency about the business, it seems that monthly meetings have covered most of the problems. It has become insignificant for meetings to contribute that much to the ROA since the numbers of meetings every year do not change significantly for some companies yet the ROA still fluctuates. In addition, boards which are meeting more often are underestimated by the market (Vafeas, 1999). Regarding equity, there is only a handful thing that meetings could discuss. The rest of the problems lay on the external factor such as global economy, exchange rate, and the current condition of the industrial sector. Therefore, how many meetings held by the companies is not significant looking at the statistics in this paper. It also points out that the meetings held by the directors are not effective, the meetings are held merely to comply with the regulation to have monthly meeting.

Moreover, more meetings are expected to have more positive effect toward the business through any improvement made in the meetings. More meetings also improve the coordination of board members which is important for companies with large number of member and if the meetings are held efficiently, it would gradually decrease the agency cost as well. But, more meetings more expenses in order to facilitate board members to come to the meeting and other costs incurred during the meeting (Hahn and Lasfer, 2016; Vafeas, 1999). The amount of board meeting needed throughout the year vary for each company in different sectors, since different sectors have their own complexity and challenge. Narrow it down to the industrial sector, competitiveness in the pharmaceutical industry may push some companies to have more meetings while in tobacco industry there are only giant companies with their enormous local market, making tobacco companies in Indonesia have less number of meetings compared to those in pharmaceutical industry.

4.3.2. Corporate Governance Has an Indirect Impact Financial Performance through Corporate Social Responsibility Disclosure (CSRD)

The second hypothesis says that CSRD works as a mediating variable. Based on the statistical result, it can be seen that CSRD is not significant as a mediating variable. In addition to each CG proxy, BS is not significant toward CSRD, meaning is that CSRD cannot be a mediating variable in a relationship between BS and FP proxies. In practice, BS clearly has influence on the efficiency of the board but does not have any significance over an approach to make since the numbers of people do not affect the approach they take. FM, on the other hand, is a different factor. CSRD is an approach taken by a company through many meetings, with how CSRD has become an imminent demand from the stakeholders (Achmad and Faisal, 2013; Bani-Khalid and Ahmed, 2017; Lim and Greenwood, 2017), FM can affect CSRD approach in a company and therefore, it has positive relationship with CSRD. It can be seen that the number of directors on board affect the firms as a whole operating body while the number of meeting affect some particular moves taken by the company in order to achieve its goals (Murwaningsari,2016; Tan et al., 2016).

Despite the fact that government mandated companies to disclose their CSR activities (Kriyantono, 2015) and the pressure from a few voluntary bodies, Indonesian people are not much concerned about environmental and social issues unlike citizen in other countries. Furthermore, Indonesian people tend to blame the government for those kinds of issue. Underestimating their role and thus, underestimating the influence of CSRD on business as well. Along with Indonesia being a member in ASEAN Economy Community by the end of 2015 (OECD, 2015), there was also a concern to improve businesses to meet the standard set by the global market with CSRD as a mandatory thing and a growing trend since 2000s. Because the setting is set in local market, CSRD is not that significant as a mediating variable though it may be significant in another setting for research paper.

CHAPTER V

CLOSING REMARKS

5.1. Conclusion

Companies have always been looking for new strategy to enhance their financial performance. Along with trends and technology, they strive to be the first to adapt and gain as much as market share. This current shifting paradigm of CSR mandates companies to actively be involved in the society and environmental movements. On the other hand, making a crucial decision, companies are required to have good corporate governance. GCG is there to ensure the whole company is working in accordance to the best interest of the stakeholders. Despite how common these aspects are, the discussions are still held and literatures are waiting for further research on how they are related to each other. This study discusses the phenomena in Indonesia, tobacco and pharmaceutical industry in particular.

The results showed that board size is not significant to the CSRD while it remains significant toward financial performance measured by ROA and ROE. Meeting frequency, on the other hand, is not proven as a significant factor toward financial performance either in the direct relationship or mediated relationship but it has considerable impact toward CSRD on a business firm. Although CSRD is mandated by the government, stakeholders in Indonesia may not see CSRD as something so urgent. The pressure from stakeholders is not as strong as that in other countries, making CSRD is not significant in the Indonesian local market. The results may differ for other business industry with various aspects from different stakeholders.

The research problem of this study is to know whether CG influences FP through the level of CSRD made by the Indonesian listed companies. The answer is negative; due to the understanding of CSRD among Indonesian people is not as advanced as in other countries. Underestimating the role CSRD has in business and making it less significant to implement in local market. Even if companies implement CSR activities and disclose them, only a minority of Indonesian people understands and those people are sometimes sceptical about the companies' contribution.

5.2. Research Limitation

This study chose high profile industries as the subject of the research and focuses more onto business sectors which affect the society more than the environment. That being said, the limitations of the research are as follow:

1. The number of the companies is limited due to some companies do not meet the requirement of this research. This leads to a fewer companies for sampling and source of data.

2. Sri Kehati Index is not widely used among Indonesian companies, though it is made by Indonesian body. Making it harder to adjust the checklist of the index and the CSR activities made by the companies in the sample.

5.3. Suggestion for Further Research

Based on the limitations stated above, several suggestions are mentioned below to help future studies engaging in similar areas:

1. In terms of sampling, the future researches are suggested to try a different area of business to have more data. For instance, future studies could try to look for food and drink industry, clothing, or automotive industry which have direct impact to environment and/or social.
2. In terms of the index, future papers could use Sri Kehati index but they have to do a little research about companies which follow the index since it is not widely used among business firms.

FINAL MINOR THEIS APPROVAL

Minor Thesis Entitled:

Does Corporate Governance Influence Financial Performance?: An Analysis Using Corporate Social Responsibility As A Mediating Variable

Written by:

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LETTER OF RESEARCH

I, Undersigned explained that:

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DOES CORPORATE GOVERNANCE INFLUENCE FINANCIAL PERFORMANCE?: AN ANALYSIS USING CORPORATE SOCIAL RESPONSIBILITY AS A MEDIATING VARIABLE

Thus, this letter of research is made to be used as appropriate.

Malang, April 23rd, 2018

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STATEMENT OF ORIGINALITY

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Hereby certify that I am the sole author of this minor thesis entitled : "**Does Corporate Governance Influence Financial Performance?: An Analysis Using Corporate Social Responsibility as a Mediating Variable**". And this minor thesis has not previously been submitted for a degree in any other university or institution.

I certify that, to the best of my knowledge, my thesis does not infringe upon anyone's copyright does not violate any proprietary rights and that any ideas, techniques, quotations, or any other materials from the work of other people included in my thesis, published or otherwise, are fully acknowledged in accordance with the standard referencing practices.

If my statement is proven to be incorrect, I agree to accept to accept existing academic sanctions. This statement was made under full awareness and consciousness, to be used when necessary.

Malang, April 23, 2018

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